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INTRODUCTION

The Office of Internal Audit performed an audit of Clare County FIA for the period October 1, 1997 through May 1, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Clare County FIA had 41 full time equated positions (FTE's) at the time of our review. Clare County FIA provided assistance to an average 4,266 recipients per month during FY 1996, with total assistance payments of \$7,201,044 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Clare County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
ENP/Heat and SER Payments	Medical Transportation
Telephone Charges	

EXECUTIVE SUMMARY

Based on our audit, we concluded that the Clare County FIA internal controls were not adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found numerous instances of noncompliance with FIA policies and procedures, many of which affect the office's internal control structure. We also noted specific internal control weaknesses.

FOLLOW-UP REVIEW

Because controls were not adequate when we performed our audit, we performed a follow-up review of Clare County FIA on August 4, 1998 to determine the status of the recommendations included in this report.

Eighteen of the recommendations in findings 1 through 19 have been implemented. The local office is in the process of implementing the other six recommendations. The Clare County FIA management was still in the process of reviewing recommendations in finding 20 relating to the status of staff on the Client Information System.

Based on our follow-up review, we conclude that the Clare County FIA internal controls are now generally adequate.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Clare County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Undetermined Revenue Account

1. Clare County FIA did not always receipt and deposit funds on a timely basis. Funds received that the Fiscal office could not determine which specific revenue accounts and program classification were appropriate, or that had to wait for certain actions to be performed were not processed until that determination was made. For example, a check for \$130.00 received on February 23, 1998 was not deposited until April 9, 1998 because changes on CIS were not processed.

Accounting Manual Item 304, page 9 describes the use of the Undetermined Revenue Account (Account 698.00). This account allows the Fiscal office to receipt in all funds promptly and to deposit the money on a timely basis even if the fund and program classification have not yet been determined.

Delays in receipting and depositing funds increases the risk that the funds will be lost or misplaced and be unaccounted for.

WE RECOMMEND Clare County FIA record funds that cannot be identified with a specific fund and program classification in the Undetermined Revenue Account.

Reconciliation of Cash Receipts

2. Clare County FIA did not have adequate controls over the cash receipting process to prevent or detect the loss of funds received through the mail. Staff independent of the cash receipting process verified the funds to be deposited with the Deposit Advice. However, the local office did not reconcile the funds recorded on the mail logs to the Official Cashier

Receipts input on LOAAS to determine if all of the funds received through the mail were entered on the accounting system.

Our reconciliation of the mail logs with the Cash Receipts Register and deposits with the County Treasurer for the period October 1997 through March 1998 disclosed the following:

Eighteen negotiable instruments totaling \$3,857.05 recorded on the mail logs for deposit to the Social Welfare Fund were not deposited with the County Treasurer. The Fiscal clerk documented a disposition on the mail logs for all of these negotiable instruments. Fifteen were either given to LO staff, sent to Central Office, or returned to the client/vendor payee. Three were LO checks returned to the LO by the client. The fiscal clerk recorded them on the mail logs to document their receipt at the LO.

Even though our review disclosed no improprieties, failure to identify mail log receipts that are not deposited with the County Treasurer increases the risk that irregularities may occur and go undetected.

Accounting Manual Item 433, page 4 requires a verification that all moneys received by the Cashier are included in the deposit by reconciling entries on the mail logs with the receipts on the edit listing, and by verifying that the amount of cash to be deposited is equal to the total amount of cash receipts.

Accounting Manual Item 431, page 9 states that LO checks sent/returned to the LO are to be recorded on the FIA-61 (Record and Disposition of Checks/Warrants) by the staff opening the mail.

Accounting Manual Item 462, page 1 requires the preparation of a “memo” receipt for warrants returned in person by the client or provider. This procedure should be followed for LO checks returned in person to the LO in order to maintain the integrity of the mail logs for documenting only the mail receipts.

WE RECOMMEND Clare County FIA have staff independent of the cash receipting process verify that all funds received by the fiscal clerk are included in the deposits as required by Accounting Manual Item 433, page 4.

WE ALSO RECOMMEND that mail room staff record LO checks sent/returned to the LO on the FIA-61 (Record and Disposition of Checks/Warrants) as required by Accounting Manual Item 431, page 9.

WE ALSO RECOMMEND that the disposition of negotiable instruments that are entered on the mail logs for deposit to the Social Welfare Fund but are not deposited in the Social Welfare be reviewed by Supervisory staff.

WE FURTHER RECOMMEND Clare County FIA prepare “memo” Official Cashiers Receipts for LO checks returned to the LO in person by the client or provider.

Depositing Funds with the County Treasurer

3. Clare County FIA did not deposit cash and negotiable instruments with the County Treasurer on a timely basis. For the period October 1997 through March 1998 deposits were made approximately every two weeks. The average deposit was \$3,832.91. Accounting Manual Item 430, page 5 states that deposits must be made at least weekly.

Maintaining large amounts of cash and negotiable instruments on local office premises exposes the Agency to unnecessary risks from loss or other irregularities when the funds can be deposited more frequently.

WE RECOMMEND Clare County FIA deposit cash and negotiable instruments with the County Treasurer at least once each week as required by Accounting Manual Item 430.

Controlled Documents

4. Clare County FIA did not maintain adequate control over the storage, use, or record keeping of controlled documents. Our review disclosed the following:
 - a. The bulk supply of Official Cashiers Receipts (OCRs) were stored in a locked file drawer in the Office Managers' office in the general office area. The key to this file drawer was kept in an unlocked desk drawer in the same office. This office was accessible to all Clare County FIA staff, increasing the risk of loss or unauthorized use of the OCRs. Storing the OCRs in the fiscal office vault will provide more security.
 - b. The Controlled Document Log (FIA-4070) was not completed properly. The document numbers of the Voucher Checks and Purchase Orders used by the fiscal office were entered in Column 9, rather than the document numbers of those distributed for use by the fiscal office. Column 11 (of the inventory distributed section) was initialed by the designated staff responsible for control of the bulk supply of controlled documents rather than the fiscal clerk receiving the documents.
 - c. The Monthly Controlled Document and Inventory Reconciliation (FIA-4351) was not signed by the preparers' supervisor i.e.: reviewers signature.

- d. The FIA-4351 was not prepared for any of the controlled documents for February 1998.
- e. Line 7 (Number of Documents used during the month according to the accounting records) on the FIA-4351 for Voucher Checks and Purchase Orders did not agree with the accounting records. This resulted from taking the monthly physical inventory after documents had been used in the next month. The physical inventory should be taken promptly at the end of the month to ensure a proper cutoff before any documents are used in the next month's business.
- f. Fiscal staff have access to the bulk supply of Voucher Checks and Purchase Orders currently stored in the fiscal office vault. The LO uses the alternate control procedure of having the designated staff person responsible for inventory control perform a physical inventory and reconciliation at month-end. However, this control procedure is ineffective if the control documents and physical inventory and reconciliation at month-end are not completed accurately and timely.

Accounting Manual Item 403 pages 9-16 describes the procedures that should be used to establish control and accountability for the inventory of the unused controlled documents.

WE RECOMMEND Clare County FIA review current storage practices to determine if the controlled documents can be stored in the vault, and still restrict access to these documents to a designated staff person independent of the use of the controlled documents.

WE ALSO RECOMMEND Clare County FIA follow the procedures outlined in Accounting Manual Item 403 pages 9-16 in order to maintain control and accountability of the unused controlled documents.

Separation of Duties Accounts Receivable

5. Clare County FIA did not provide for the adequate separation of duties in the accounts receivable functions. The one fiscal clerk was responsible for the entire accounts receivable function, with no independent review of the work. The addition of a half time staff person will improve the process, but will not separate the functions of cashiering, entering on LOAAS, and reconciliation. Accounting Manual Item 480, page 4 and 5 requires an independent review of functions that have been combined. This independent review must be documented. An independent review of the accounts receivable functions provides assurance of the accuracy of the accounts receivable.

WE RECOMMEND Clare County FIA have staff independent of the accounts receivable functions review the accounts receivable transactions as required by Accounting Manual Item 480.

Reconciliation of the Sign-O-Meter Record

6. Clare County FIA had not separated the functions of signing checks and reconciling the checks recorded on the Sign-O-Meter Record with the check register. The same person that signed and entered the checks on the log also reconciled the log to the entries on the log, but not with the check register.

Accounting Manual Item 410.1, page 1 requires the reconciliation of the Sign-O-Meter Record with the check register to be performed by staff that does not operate the check signing machine.

Separating the check signing and reconciliation process provides assurance that no check goes through the check signer that is not accounted for in the accounting records.

WE RECOMMEND Clare County FIA have staff independent of the check signing process reconcile the Sign-O-Meter Record with the check register.

Journal Voucher Authorization

7. Clare County FIA did not follow established procedures for authorizing journal vouchers. Journal vouchers prepared by the fiscal clerk did not have an authorizing signature. Accounting Manual Item 450, page 6 requires journal vouchers to be signed by the preparers' supervisor or person designated by the local office director. Without proper authorization, the risk of unauthorized transactions being processed is increased.

WE RECOMMEND Clare County FIA require all journal vouchers to be properly authorized by the fiscal clerks supervisor or staff designated by the local office director.

Closing Accounting Records

8. Clare County FIA did not close the accounting records on the Local Office Automated Accounting System (LOAAS) in a timely manner. At the time of review, the accounting records were last closed December 31, 1997. At the close of business each month and after preparation of the trial balance and Monthly Financial Report (FIA-206A) and other related reports, the month-end close out on LOAAS should be done as stated in Accounting Manual Item 402, page 2

Leaving LOAAS open increases the risk that entries may be backdated and financial information may be changed and not detected on a timely basis.

WE RECOMMEND Clare County FIA perform the prior month-end close out of LOAAS after preparation of the trial balance, FIA-206A and other monthly reports.

Modified Accrual Basis Balance Sheet

9. Clare County FIA did not have all of the appropriate payable and reserve accounts required to prepare a modified accrual basis balance sheet established on LOAAS. Accounting Manual Item 402.3, page 3, states that these accounts should be included in the chart of accounts maintained on LOAAS.

Including these accounts on LOAAS with the appropriate offset accounts, and cross referencing to the related revenue and expenditure accounts will facilitate preparation of a modified accrual basis balance sheet. Omission of these accounts could result in the inaccurate reporting of the county's equity in the Social Welfare Fund.

WE RECOMMEND Clare County FIA establish the necessary accounts payable and reserve accounts on LOAAS.

Reconciliation of Automated Recoupment System Reports

10. Clare County FIA did not reconcile the Automated Recoupment System (ARS) reports with the payment information input during the month. The fiscal office received the GH-280 (Recoupment Activity Report), but the GH-370 (Monthly Cash Reconciliation Report) and the GH-380 (Monthly Write-Off Report) were not sent to the fiscal Office but were filed in the LO central files.

Accounting Manual Item 481.5, page 9 requires the LO fiscal office to designate a person to be responsible for reconciling these monthly reports with the payment information input during the month on ARS.

Failure to reconcile the ARS reports with the input documents increases the risk of incorrect or unauthorized transactions being entered on the Automated Recoupment System.

WE RECOMMEND Clare County FIA distribute the GH-370 (Monthly Cash Reconciliation Report) and GH-380 (Monthly Write-Off Report) to the fiscal office and the Automated Recoupment System Reports be reconciled with the input documents.

Cash Reserve File

11. Clare County FIA did not follow established procedures for maintaining documentation in the Cash Reserve file. There was no documentation in the Cash Reserve file for the return of \$13,000.00 in November 1997.

Accounting Manual Item 402.6, page 1 requires the LO to place the original or photocopies of all documents that affect the Cash Reserve in the Cash Reserve file.

WE RECOMMEND Clare County FIA comply with Accounting Manual Item 402.6, page 1 and place the original or a photocopy of all documents that affect the Cash Reserve in the Cash Reserve file.

Security Officer Log Report (PD180)

12. Clare County FIA did not separate the functions of Security Officer and reconciliation of the Security Officer Log Report (PD-180). The Security Officer was responsible for

reconciling the listed operator enrollments and changes on the PD-180 with the supporting documentation.

CIS Security Policy (L Letter L-97-063) states that the PD-180 report is not to be reconciled by the Local Office CIS Security Coordinator and ideally should be reconciled by someone without any access to CIS.

Failure to separate the Security Officer functions and reconciliation of the transactions listed on the PD-180 report increases the risk of inappropriate access to CIS.

WE RECOMMEND Clare County FIA have staff other than the CIS Security Officer reconcile the transactions listed on the Security Officer Log Report (PD-180) to the appropriate supporting documentation required by the CIS Security Policy.

MA-010 Report Reconciliation

13. Clare County FIA did not reconcile transactions marked with an ampersand on the Transaction Control Listing (MA-010) with the case record documentation as required by the Local Office Reports Description Manual and CIS security policy. Instead, the marked transactions were reconciled to documents in the case record with the same transaction number. Reconciling the marked transactions on the MA-010 report to the case record documentation helps to ensure that transactions were properly authorized.

WE RECOMMEND Clare County FIA reconcile the transactions marked with an ampersand on the MA-010 report with the case record documentation

Knowledge of IRS Security Procedures

14. The Clare County mailroom staff were unaware of the proper procedures to follow for confidential information received from the IRS. Mailroom staff did not know that unsigned tape match notices were confidential and that the Designated Staff Person was responsible for controlling forms that have not been released by the client. Program Administrative Manual Item 800 describes the procedures and confidentiality requirements for unsigned tape matches. Knowledge of proper procedures is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND Clare County FIA familiarize the mailroom staff with all aspects of the confidentiality requirements for information received from the IRS.

Stamping Documents "PAID"

15. Clare County FIA did not stamp supporting documentation attached to a voucher "PAID" when payment was made. The Accounting Manual Items related to payment processing requires supporting documentation to be stamped "PAID." Stamping supporting documents "PAID" decreases the risk of duplicate payments.

WE RECOMMEND Clare County FIA stamp all supporting documentation "PAID" when payment is made.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Clare County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

Access to the Fiscal Office

16. Clare County FIA did not restrict access to the fiscal office. Workers and other staff were allowed to enter the fiscal office, except when food coupons were being issued.

Access to the fiscal office should be restricted in order to maintain physical security over negotiable instruments and food coupons.

The physical security, control, and accountability of cash, negotiable instruments, and food coupons is weakened when unlimited access to the fiscal office is allowed.

WE RECOMMEND Clare County FIA restrict access to the fiscal office to fiscal staff and supervisory staff performing fiscal related activities.

Lock to the Fiscal Office Vault

17. Clare County FIA had not changed the lock to the vault located in the fiscal office even though staff that had access to the vault key have terminated employment. The fiscal office has a security keypad on the fiscal office door that has been changed. However the lock to the vault should also be changed when staff that had access to the vault key terminates employment to reduce the risk of unauthorized access to the vault.

WE RECOMMEND Clare County FIA change the lock to the fiscal office vault.

Telephone Calling Cards

18. Clare County FIA did not have adequate control over the return of telephone calling cards issued to LO staff. Five staff that have terminated employment at Clare County FIA were still reported as having telephone calling cards in their possession.

Failure to collect telephone calling cards from staff that have been assigned cards exposes the LO to the risk of inappropriate telephone charges.

WE RECOMMEND Clare County FIA collect or inactivate the telephone calling cards that have not been returned by the former employees.

WE ALSO RECOMMEND Clare County FIA establish procedures to collect telephone calling cards that have been assigned to staff that terminate employment at Clare County FIA.

Warrants/Checks Received at the Local Office

19. Clare County FIA did not properly separate duties for controlling warrants/checks received by the LO. Fiscal staff responsible for the custody of the warrants/checks also review the FIA-61 (Record and Disposition of Checks/Warrants) and warrant/check file to determine if warrants/checks are on hand for all open items. A review of the FIA-61 by the same staff that also records and disposes of these items does not provide a reasonable assurance of detecting errors or improprieties.

Staff independent of the process should review the FIA-61 and warrant/check file to determine that warrants/checks have been disposed of properly and timely.

WE RECOMMEND Clare County FIA have staff independent of the fiscal office review the FIA-61 to verify that all open items are on hand.

Client Information System (CIS) Status Codes

20. Clare County FIA had assigned Client Information System (CIS) status codes that were inconsistent with staff job responsibilities We found that:

The Family Independence Managers had been assigned “FIS” status on CIS. Assigning CIS status codes to supervision that allows them to process case transactions without an independent review increases the risk that unauthorized transactions could be processed and not be detected in a reasonable period of time.

The staff person assigned full time to intake reception and the half-time fiscal staff person had been assigned “FLM” status on CIS. Assigning “FLM” status codes to staff that are responsible for registration and case number assignment or fiscal duties increases the risk of unauthorized transactions being processed that would not be detected in a reasonable period of time.

WE RECOMMEND Clare County FIA change the CIS status codes of the Family Independence Managers to Inquiry (INQ) only.

WE ALSO RECOMMEND Clare County FIA change the CIS status codes of the intake reception and half time fiscal staff to “IRG” status on CIS.